



A STUDY ON THE PROBLEMS OF WORKING CAPITAL OF FPIs IN KERALA

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ABSTRACT - Agriculture is a vital part of India's economy. Agricultural sector provide in the order of 52 per cent of job in India and put in around 18.1 per cent to the GDP. In developing countries, agriculture is the stronghold of the economy. Magnitude of agro processing sector was first realized by the grievous famine of Bengal. Agro processing is now regarded as the sun rise sector of the Indian economy which has socio economic impact, distinctively on employment and income generation. Food processing industry accounts for about 14% of manufacturing GDP i.e., Rs 280000 crores and employs about 13 million people directly and 35 million people indirectly. Very good venture opportunities exist in many areas of food processing industry. Important amid them are fruit and vegetable processing industry, meat, fish and poultry processing, milk products, convenience food and drinks etc. Food processing industry has many challenges in front of it, ranging from infrastructures to human resources and technological backwardness. India will miss a golden-haired opportunity of using its vast agro livestock resources to strengthen its economy. Working capital is basically an indicator of the short term financial position of an organization and is also a overall measure of efficiency.

Keywords : Working Capital, FPIs, Large scale sector, Small scale sector, Home scale, Cottage sector

I. INTRODUCTION

Processing of fruits and vegetables in India holds marvelous potential to grow, considering the still embryonic levels of processing at current. Though India's horticultural production base is practically strong, wastage of horti produce is considerable. Processing and value count is the most helpful solution to reduce the wastage. Considering the wide-ranging and large raw material base that the country offers, along with a consumer base of over one billion people, the industry holds incredible opportunities for large investments. The fruit and vegetable processing industry in India is highly decentralized. The high up processed items are fruit pulps and juices, fruit based ready-to-serve beverages, canned fruits and vegetables, jams, squashes, pickles, chutneys and dehydrated vegetables. More just, products like frozen pulps and vegetables, frozen dried fruits and vegetables, fruit juice concentrates have been taken up for manufacture by the industry. Fruits and vegetables are also grown in the fertile soil of Kerala. Various fruits that are grown in the soil of Kerala are mango, jack fruit, pineapple, papaya, and plantain. Fruit and vegetable processing industries are classified into large scale, small scale, cottage sector and home scale depending upon the capacity of production. Kerala comprises of all the four categories. Working capital turnover ratio indicates the velocity of the utilization of net working capital. It should be noted that a very high working capital turnover ratio means over trading and a very low working capital turnover ratio means under trading, none of which is good for a concern.

OBJECTIVES

1. To study the working capital ratio of FPIs
2. To analyze the problems of working capital in FPIs

Working Capital turnover Ratio

Working capital is the excess of current asset over current liabilities.

$$\text{Working capital} = \frac{\text{Sales}}{\text{Working capital}} \times 100$$

There is no standard or ideal working capital ratio. Though there is no standard working capital turnover ratio indicates the efficiency and a lower working capital turnover ratio indicates the

inefficiency of the management in the utilization of working capital. So the working capital turnover ratio should be neither very high nor very low, it should be normal.

Table 1
Distribution of working capital turnover ratio based on selected variables

		Mean	SD	N	F	P
Sector	Large scale sector	81.5	124.0	9	2.39	0.074
	Home scale sector	63.2	52.3	28		
	Small scale sector	52.1	55.2	23		
	Cottage sector	33.1	26.6	33		
No of products produced	1	51.5	43.9	55	0.54	0.586
	2	41.8	42.2	19		
	>=3	61.4	97.2	19		
Category	Vegetable	49.8	48.7	44	0.05	0.951
	Fruit	52.1	60.4	30		
	Both	54.8	75.1	19		

Source: Primary Data

Average working capital turnover ratio is high in large scale sector (81.5) and low in cottage sector (33.1). Home scale sector have an average working capital of 63.2 and that for small scale sector is 52.1. Sample units producing three or more than three products have high working capital turnover ratio (61.4) followed by single product (51.5) and low in two products producing units. Sample units producing only vegetable products have less working capital turnover ratio (49.8) followed by fruit product producing sample units (52.1) and high in those units producing both fruit and vegetable products (54.8).

Problems relating to the working capital

Problems relating to the working capital of the sample units are ranked as follows.

Table 2
Ranking of problems of working capital

	Mean	Rank
Shortage	2.5	4
High interest	1.9	5
Delay in getting working capital	3.5	2
Banks are not willing to provide working capital	4.4	1
Heavy procedure	2.8	3

Source: Primary Data

It is clear that banks are not willing to provide working capital which is the prime problem faced by the sample units as per the working capital. The second position goes to delay in getting working capital from the bank. The third rank goes to heavy procedure in getting the working capital from the bank. The fourth position goes to shortage of fund to run the business. The fifth rank goes to high interest of the principal amount ranking the problems of working capital based on sectors are as follows:

Table 3
Ranking of problems of working capital based on sector

	Large scale sector		Home scale sector		Small scale sector		Cottage sector	
	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
Shortage	2.3	4	3.8	1	1.6	5	2.1	4
High interest	1.8	5	1.8	5	2.0	4	1.9	5
Delay in getting working capital	3.7	2	3.1	3	3.8	2	3.5	2
Banks are not willing to provide working capital	4.3	1	3.7	2	4.8	1	4.7	1
Heavy procedure	2.9	3	2.6	4	2.8	3	2.8	3

Source: Primary Data

The main problem faced by the large scale sector is bank unwillingness to provide the fund to the business is ranked as first followed by delay in getting the fund (rank 2) heavy procedure of getting the fund (rank 3) shortage of fund (rank 4) and high interest ranked fifth. According to home scale sector, shortage of fund is the main problem, ranked first. Banks are not willing to the fund arrangement is the second problem. Delay in getting working capital ranked third, heavy procedure is ranked fourth and high interest of the fund is the fifth problem. In small scale sector, and cottage sector first rank goes to Bank unwillingness to provide the fund, delay in getting working capital (rank 2), Heavy procedure (rank 3). Spearman rank correlation matrix of the working capital is given below.

Table 4
Correlation matrix regarding the problems of working capital based on sector

	Large scale sector	Home scale sector	Small scale sector	Cottage sector
Large scale sector	1			
Home scale sector	0.4	1		
Small scale sector	0.9*	0	1	
Cottage sector	1	0.4	0.9*	1

Source: Primary Data

* Significant at 0.05 level

Spearman correlation matrix of ranking the problems relating to working capital between large scale and home scale shows no significant correlation ($r = 0.4$), large scale with small scale exhibit significant correlation ($r = 0.9$) at 0.05 level. A similar result is observed in small scale with cottage sector, significant correlation exist at 0.05 level ($r = 0.9$). All other combination exhibit non-significant correlation. It simply means that, the problems relating to under capacity utilization of different sectors are not related.

Table 5
Distribution of problems of working capital based on sector

	Large scale sector	Home scale sector	Small scale sector	Cottage sector	H	p
Shortage	2.3	3.8	1.6	2.1	25.19**	0.000
High interest	1.8	1.8	2	1.9	6.96	0.073
Delay in getting working	3.7	3.1	3.8	3.5	4.57	0.206

capital						
Banks are not willing to provide working capital	4.3	3.7	4.8	4.7	19.87**	0.000
Heavy procedure	2.9	2.6	2.8	2.8	1.25	0.740

Source: Primary Data

The average score of the problem relating to shortage of different sectors are 2.3, 3.8, 1.6 and 2.1 shows significant variation at 0.01 level ($H=25.19$). The same result can be seen in the case of banks unwillingness to provide working capital the mean score are 4.3, 3.7, 4.8 and 4.7. The H test shows significant variation at 0.01 level ($H = 19.87$). It means that the problem of bank unwillingness to provide the loan is more or less same in the sectors. All other problems like high interest, delay in getting the working capital, and heavy procedure exhibit non significant variation.

II. CONCLUSION

Working capital management is in essence an accounting strategy with a hub on the maintenance of an adequate balance between a company's current assets and liabilities. An effective working capital management system helps businesses not only cover their financial obligations but also make better their earnings. Working capital indicates liquidity levels of the companies for supervision day to day expenses and covers inventory, cash, accounts payable, accounts receivable and short term debt that is due. Average working capital turnover ratio is high in large scale sector (81.5) and low in cottage sector (33.1). Banks are not willing to provide working capital for the units is the main problem faced by the units.

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